



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	SB0157	<b>Title:</b>	Generally revise tax reappraisal laws
<b>Primary Sponsor:</b>	Tutvedt, Bruce	<b>Status:</b>	As Amended in House Committee

- ☒ Significant Local Gov Impact
 ☒ Needs to be included in HB 2
 ☐ Technical Concerns  
☐ Included in the Executive Budget
 ☐ Significant Long-Term Impacts
 ☐ Dedicated Revenue Form Attached

### FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b>Expenditures:</b>				
General Fund	(\$49,719)	(\$216,158)	(\$106,500)	(\$331,332)
<b>Revenue:</b>				
General Fund	\$10,934,148	\$9,073,148	\$7,062,148	\$4,880,148
State Special Revenue	\$685,108	\$569,108	\$442,108	\$305,108
<b>Net Impact-General Fund Balance:</b>	<u>\$10,983,867</u>	<u>\$9,289,306</u>	<u>\$7,168,648</u>	<u>\$5,211,480</u>

**Description of fiscal impact:** SB 157, as amended, revises property tax laws by changing the reappraisal cycle from a six-year cycle to a two-year cycle for class 3 and class 4; adjusts the rates at which the market value of property is taxed to maintain taxable value neutrality between residential, agricultural, and commercial, properties on a statewide basis; extends the base period of the data for the valuation of forest land; increases the rate class 10 from 0.29% to 0.37%; and revises Montana's Property Tax Assistance Program and Montana Disabled Veteran Property Tax Relief Program. The changes in taxable value under this bill create a guaranteed tax base aid (GTB) savings beginning in FY 2016. This bill is effective on passage and approval and applies retroactively to TY 2015.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue**

- Under current law, the increase in reappraisal value for class 3 agricultural land, class 4 residential and commercial real property, and class 10 forestland is phased-in over six years. However, if a property

decreased in value, the new (lower) value is applied in the first year. For each year over the six years, the homestead exemption for class 4 residential real properties would remain at 47% and the comstead exemption for class 4 commercial properties would remain at 21.5%. The tax rate for classes 3 and 4 would be 2.47% and the tax rate for class 10 would be 0.29%.

2. SB 157 proposes two principle things: 1) move reappraisal from a six-year cycle to a two-year cycle for classes 3 and class 4, and 2) implement a policy of taxable value neutrality on a statewide basis for agricultural, residential, and commercial properties. That is, SB 157 sets the tax rates so that the overall taxable value for these types of properties stays the same on a statewide basis.

Calculation of taxable value neutrality by class

3. The change in value for agricultural land is predominantly determined by the changes in commodity price used to determine productivity value for the land.
4. Forest land values are determined by the University of Montana, College of Forestry and Conservation productivity estimates with input from the timber industry.
5. Under current law, timber values are determined using a five-year price average, and a capitalization rate of 8%.
6. Under the provisions of the amended version of SB 157, forest land is valued using a ten-year average price and a capitalization rate of 8%.
7. The value for residential and commercial properties is determined by examining valuation methods using a sales, cost, or income approach. A final market value is then determined based on one of three valuation methods.
8. The following table shows relevant information about the changes in value on a statewide basis for the different types of property over the six-year cycle.

<b>Type of Property</b>	<b>Estimated Change in Value</b>	
	<b>Current Law</b>	<b>SB 157 as amended</b>
Residential	-2.85%	-2.85%
Commercial	2.45%	2.45%
Agricultural	16.72%	16.72%
Forestland	-50.22%	-21.29%

9. Although current law sets the tax rate at 2.47% for agricultural, residential, and commercial property, because of the homestead and comstead exemptions, the actual rate is for these classes of property is equal to 2.47% multiplied by the exemption rates.
10. For the majority of residential properties, the rate used to determine taxable value is equal to the statutory rate times one minus the homestead exemption percentage, or 1.31% (2.47% X (100% - 47%)). The exemption does not apply to a single-family dwelling value over \$1.5 million. The rate is equal to 2.47% for the value above \$1.5 million.
11. Under current law, the rate used to calculate taxable value for commercial property was equal to the statutory rate multiplied by one minus the comstead exemption or 1.94% (2.47% X (100% - 21.5%))
12. The following table displays these rates for agricultural, residential, and commercial property:

<b>Agricultural, Residential, and Commercial Property Tax Rates</b>			
<b>Property Type</b>	<b>Rate</b>	<b>Exemption Rate</b>	<b>Actual Rate</b>
Agricultural	2.47%	0.00%	2.47%
Residential	2.47%	47.00%	1.31%
Commercial	2.47%	21.50%	1.94%

Setting taxable value neutral tax rates by class

13. A policy of taxable value neutrality on a statewide basis for agricultural, residential and commercial properties would set the rates so that the overall taxable value for these types of properties stayed the same on a statewide basis between TY 2014 and TY 2015.
14. If all agricultural land was taxed the same, the taxable value neutral rate would be equal to the TY 2014 taxable value divided by the TY 2015 market value. However, non-qualified agricultural property is taxed at a rate equal to 7 times the statutory agricultural rate, 15-6-433(3), MCA. Therefore, to calculate a taxable value neutral rate, the TY 2014 taxable value needs to be divided by the market value of the qualified agricultural properties, and seven times the market value of the non-qualified properties. This relationship is presented in the following equation:

$$\text{Tax Neutral Rate} = \frac{\text{Taxable Value}_{\text{TY14}}}{\text{Qual. Market Value}_{\text{TY15}} + 7 \times (\text{Non - Qual. Market Value}_{\text{TY15}})}$$

15. Total agricultural taxable value in TY 2014 was equal to \$143.896 million. The market value for qualified agricultural properties after reappraisal is equal to \$6,336.489 million and the market value for non-qualified agricultural property is equal to \$45.061 million. If we substitute these values into the previous equation we get the following:

$$\text{Tax Neutral Rate} = \frac{\$143,896,608}{\$6,336,489,328 + 7 \times (45,061,332)}$$

$$\text{Tax Neutral Rate} = \frac{\$143,896,608}{\$6,651,918,652}$$

$$\text{Tax Neutral Rate} = 2.1632\%$$

16. The following table shows the TY 2014 market value, taxable value, and effective rates for the different classes of property. For TY 2015, the new market values are displayed along with the TY 2014 taxable values, and new taxable value neutral effective tax rates are calculated.

Taxable Value Neutral Calculations (\$ Millions)					
Agricultural Property			Commercial Property		
	TY 2014	TY 2015		TY 2014	TY 2015
Market Value (Given)	\$5,467.386	\$6,381.551	Market Value (Given)	\$18,294.152	\$18,742.568
Effective Rate*	x 2.63%	x 2.25%	Effective Rate*	x 1.92%	x 1.87%
Taxable Value	\$143.897	\$143.897	Taxable Value	\$350.605	\$350.605
Residential Property					
	TY 2014	TY 2015			
Market Value (Given)	\$89,778.076	\$87,218.359			
Effective Rate*	x 1.30%	x 1.34%			
Taxable Value	\$1,168.360	\$1,168.360			
*Effective rates differ from statutory rates as a result of different rates for properties in the same tax class. Non-qualified agricultural land and golf courses are examples.					

17. Section 5 of the bill changes the rate from 2.47% to 2.16% for agricultural land.

18. SB 157 eliminates the homestead exemption and changes the rate from 2.47% to 1.35% for all residential property value except the value of single-family dwellings over \$1.5 million, which has a rate of 1.40 times the regular residential rate, or 1.90% (i.e. the equivalent to having a statutory rate equal to the new class four commercial rate).
19. SB 157 eliminates the comestead exemption and changes the rate to 1.40 times the residential rate of 1.35%, or 1.90%.
20. SB 157 changes the rate used to determine taxable value for forestland from 0.29% to 0.37%.

Accounting for a two-year reappraisal cycle

21. Under current law, the market value for property that increased in value between 2002 and 2014 will be phased in by one-sixth increments over the reappraisal cycle ending in 2020. However, if property values decrease, then the decreased market value is not phased in. SB 157 proposes to remove phase-in so that all changes in value will occur in the first year, both positive and negative, and move to a two-year cycle. However, this does not include class 10 property.
22. The table below shows the estimated proportion of properties in each tax class that have increased, decreased, and stayed the same:

Property	Increased in value	Decreased in Value	No Change	Total
<b>Residential</b>	51.2%	48.4%	0.3%	100%
<b>Commercial</b>	51.3%	48.0%	0.7%	100%
<b>Agricultural</b>	27.6%	72.4%	0.0%	100%
<b>Forestland</b>	0.0%	100.0%	0.0%	100%

23. Estimated changes from HJ 2 for FY 15, FY 16 and FY 17, and from the Office of Budget and Program Planning for FY 18 and FY 19, for the different types of property were applied. The following table shows the estimated current law taxable value, estimated SB 157 taxable value, and the change in taxable value as a result of SB 157 in millions of dollars.

Fiscal Year	Agricultural	Residential	Commercial	Timber	Total
<b>Current Law Taxable Value (\$ million)</b>					
FY 2015	\$143.9	\$1,168.4	\$350.6	\$6.3	\$1,669.1
FY 2016	\$136.0	\$1,077.1	\$331.5	\$3.1	\$1,547.7
FY 2017	\$147.2	\$1,129.5	\$350.0	\$3.1	\$1,629.8
FY 2018	\$159.1	\$1,184.7	\$369.4	\$3.1	\$1,716.3
FY 2019	\$171.8	\$1,242.7	\$389.8	\$3.0	\$1,807.3
<b>Taxable Value under SB 157 as Amended in Senate Finance and Claims</b>					
FY 2015	\$143.9	\$1,168.4	\$350.6	\$6.3	\$1,669.1
FY 2016	\$143.7	\$1,163.8	\$350.1	\$6.3	\$1,663.9
FY 2017	\$149.3	\$1,207.5	\$363.6	\$6.2	\$1,726.6
FY 2018	\$155.2	\$1,253.1	\$377.5	\$6.2	\$1,792.1
FY 2019	\$161.3	\$1,300.7	\$392.1	\$6.1	\$1,860.2
<b>Change in Taxable Value (\$ million)</b>					
FY 2015	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
FY 2016	\$7.7	\$86.7	\$18.6	\$3.2	\$116.2
FY 2017	\$2.1	\$78.0	\$13.6	\$3.1	\$96.8
FY 2018	(\$3.9)	\$68.5	\$8.1	\$3.1	\$75.8
FY 2019	(\$10.4)	\$58.0	\$2.2	\$3.1	\$52.9

24. The state mills were then applied to the change in taxable value to determine the estimated fiscal impact to the state. All property is levied the university mills (6) and the school equalization mills (95). Property in

Silver-Bow, Cascade, Yellowstone, Missoula, and Lewis & Clark are levied additional Vo-Tech mills (1.5). The following table shows the estimated fiscal impact to the state of SB 157.

Estimated Change in State Property Tax Revenue (\$ million)			
Fiscal Year	General Fund	University Mills	Total
FY 2016	\$11.001	\$0.690	\$11.691
FY 2017	\$9.150	\$0.574	\$9.724
FY 2018	\$7.139	\$0.447	\$7.586
FY 2019	\$4.957	\$0.310	\$5.267

Property Tax Assistance (PTAP) and Montana Disable Veterans (MDV) Programs

25. Under current law, the State of Montana allows single income tax filers with incomes below \$21,032, and \$28,043 for joint and head of household tax filers, to have their property taxes reduced through the Property Tax Assistance Program (PTAP). Qualified taxpayers can have their property tax rates reduced for the first \$100,000 in taxable market value, including up to five acres of land, associated with their primary residence. Tax rate reductions of 80%, 50%, or 30% are allowed through the PTAP program, with rates that depend on the household's total income. To qualify for the program, taxpayers are currently required to fill out an application and apply for the PTAP program every tax year.
26. SB 157 makes the following change to the PTAP program:
  - a. Qualifying income is changed from total household income to federal adjusted gross income, excluding capital and income losses of the applicant and their spouse.
  - b. Taxpayers who apply for the PTAP program are automatically enrolled in the PTAP program in subsequent years as long as they continue to meet PTAP qualifications.
  - c. The five acre land limit has been eliminated.
  - d. The \$100,000 taxable market value limit has been replaced with a \$200,000 appraised value limit.
27. Based on taxpayers enrolled in the PTAP program in TY 2014, and current state mills, the changes to the PTAP program made by SB 157 would have reduced state general fund property tax revenue by \$60,000 for FY 2015. State special revenue would have decreased by \$3,772 for FY 2015.
28. For fiscal note purposes it is assumed the FY 2016 through FY 2019 reduction in revenue will be equal to the estimated FY 2015 values.
29. SB 157 also modifies the state's property tax assistance program for Montana disabled veterans (MDV). Under current law, disabled veterans, or their surviving spouse, who reside in Montana are able to have their property taxes reduced by either 100%, 80%, 70%, or 50%, depending on their income. To qualify for the program, individuals must have a federally adjusted gross income of less than \$39,000 if the taxpayer is single, \$45,000 if they are married, or \$34,000 if they are a surviving spouse of a veteran. The MDV program currently limits the property tax reduction to a maximum of five acres.
30. SB 157 changes the income qualification for the MDV program from federal adjusted gross income to federal adjusted gross income, excluding capital and income losses for the applicant and their spouse. SB 157 also eliminates the five acre property cap.
31. Based on taxpayers enrolled in the MDV program in TY 2014, and current state property tax mills, the changes made to the MDV program by SB 157 would have reduced state general fund revenue by \$16,852 in FY 2015 and state special revenue by \$1,120.
32. SB 157 eliminates Extended Property Tax Assistance Program (EPTAP). To qualify under current law, a property owner must have had an increase in value of more than 25% as a result of 2008 reappraisal and have an increase in tax liability of more than \$250 in 2008. However, because of the statutory language in 15-6-193 MCA, taxpayers would have a lower taxable value if they chose not to participate in EPTAP, assuming they qualified. Therefore, the estimated impact of eliminating EPTAP is expected to be negligible.

Department Costs

33. Implementation of SB 157 is expected to require an additional 11.00 FTE in the Property Assessment Division (PAD) and an additional 1.00 FTE in the Business and Income Tax (BIT) division. Expenses are estimated to be approximately \$0.689 million per fiscal year for personal services, approximately \$0.301 per

fiscal year for operating expenses, and approximately \$0.039 million in one-time operating costs. It is assumed that these costs will be funded from the general fund.

### Office of Public Instruction

34. Local school district mills would shift among tax types to provide the necessary revenue for school district budgets. The amount each taxpayer pays will change based on the change in value of property with respect to the district average but total local school taxes paid would essentially match present law.
35. The changes SB 157 proposed for property tax creates a net GTB savings for the state. The general fund savings are outlined below:

FY 2016	FY 2017	FY 2018	FY 2019
-1,060,351	-1,025,462	-1,105,811	-1,331,958

36. Changes to property tax values may have an impact on the Natural Resource Development (NRD) K-12 Payment. However, the changes in this bill are not expected to cause a significant fiscal effect to the NRD payments.
37. Revenue received from county school levies for all district funds will not change due to this bill as tax shifting occurs.
38. The shift of tax liability occurs between tax classes, but results in negligible change to retirement GTB.

	FY 2016 <u>Difference</u>	FY 2017 <u>Difference</u>	FY 2018 <u>Difference</u>	FY 2019 <u>Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b>Department of Revenue</b>				
FTE	12.00	12.00	12.00	12.00
<b><u>Expenditures:</u></b>				
<b>Department of Revenue</b>				
Personal Services	\$681,036	\$681,056	\$692,151	\$703,442
Operating Expenses	\$290,620	\$308,248	\$307,160	\$297,184
One-Time Operating	\$38,976			
<b>Office of Public Instruction</b>				
Local Assistance (GTB)	(\$1,060,351)	(\$1,205,462)	(\$1,105,811)	(\$1,331,958)
<b>TOTAL Expenditures</b>	<u>(\$49,719)</u>	<u>(\$216,158)</u>	<u>(\$106,500)</u>	<u>(\$331,332)</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	(\$49,719)	(\$216,158)	(\$106,500)	(\$331,332)
<b>TOTAL Funding of Exp.</b>	<u>(\$49,719)</u>	<u>(\$216,158)</u>	<u>(\$106,500)</u>	<u>(\$331,332)</u>
<b>Department of Revenue</b>				
<b><u>Revenues:</u></b>				
General Fund (01)	\$10,934,148	\$9,073,148	\$7,062,148	\$4,880,148
State Special Revenue (02)	\$685,108	\$569,108	\$442,108	\$305,108
<b>TOTAL Revenues</b>	<u>\$11,619,256</u>	<u>\$9,642,256</u>	<u>\$7,504,256</u>	<u>\$5,185,256</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$10,983,867	\$9,289,306	\$7,168,648	\$5,211,480
State Special Revenue (02)	\$685,108	\$569,108	\$442,108	\$305,108

**Effect on County or Other Local Revenues or Expenditures:**

**Department of Revenue**

1. Local governments will see the same decreases from current law taxable value. However, since local government mill levies are set on current year taxable values, and revenue governed by 15-10-420, MCA, local mill levies will adjust to generate the required property tax revenue.

**Office of Public Instruction**

2. Local property taxes to support the school district BASE budgets may increase by approximately \$1,253,000 in FY 2016, \$860,000 in FY 2017, \$928,000 in FY 2018, and \$1,118,000 in FY 2019.

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*Sponsor's Initials*

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*Budget Director's Initials*

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